



RESOLUTION NO. 2007-80

A RESOLUTION OF THE COUNCIL OF THE CITY OF FRESNO ADOPTING THE 451st AMENDMENT TO THE MASTER FEE SCHEDULE RESOLUTION NO. 80-420 TO ADJUST VARIOUS FEES IN THE WATER FEE SECTION UNDER THE DEPARTMENT OF PUBLIC UTILITIES

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF FRESNO:

THAT the Master Fee Schedule Resolution No. 80-420 be and is hereby amended to adjust various fees for water utility services provided by the Department of Public Utilities, Water Division in accordance with Resolution No. 07-79. This will allow the Water Enterprise to fully fund all operational, debt service and planned capital improvement expenditures, provide an adequate reserve, and meet the required debt service and operating coverage test ratios for debt obligations from FY 2007 to FY 2010. The revised pages of the Master Fee Schedule are attached and made a part of this Resolution. Staff shall update the Master Fee Schedule annually during the budget process to reflect the rates in effect as per Resolution No. 07-79

THAT this resolution shall become effective on April 1, 2007.

CLERK'S CERTIFICATION

STATE OF CALIFORNIA)
COUNTY OF FRESNO)ss.
CITY OF FRESNO)

I, REBECCA E. KLISCH, City Clerk of the City of Fresno, certify that the foregoing Resolution was adopted by the Council of the City of Fresno, California, at a regular meeting thereof, held on the 27th day of February, 2007.

AYES: Calhoun, Dages, Duncan, Westerlund, Xiong
NOES: Sterling, Perea
ABSENT: None
ABSTAIN: None

Mayor Approval: March 12, 2007
Mayor Approval/No Return: N/A, 2007
Mayor Veto: N/A, 2007
Council Override Veto: N/A, 2007

REBECCA E. KLISCH
City Clerk

Handwritten signature of Rebecca E. Klisch

APPROVED AS TO FORM
CITY ATTORNEY'S OFFICE
BY:

Handwritten signature of Deputy City Attorney
Deputy City Attorney

Adopted 2/27/07
Approved 3/12/07
Effective 3/12/07



**CITY OF FRESNO
MASTER FEE SCHEDULE
AMENDMENT COVER LETTER**

DEPARTMENT OF PUBLIC UTILITIES (DPU)/WATER DIVISION

The DPU/Water Division is proposing the revision of various water service fees. The proposed amendments to the fee schedule for FY 2007 are listed as follows:

New Fees:	0
Increased Fees:	27
Deleted Fees:	0

EXECUTIVE SUMMARY

An 18% rate increase is proposed for metered and unmetered water services as part of the funding for the Water Division FY 2007 Request Budget. This is based on the findings from the Water Rate Study completed by an independent consultant and approved by the Utility Commission. Projected customer user charges will increase to \$37.9 million from \$36.1 million at the current rate structure. This rate increase will allow the Water Enterprise to fully fund all operational, debt service and planned capital improvement expenditures; provide an adequate reserve; and meet the required 125% debt service and 100% operating coverage test ratios for debt service obligations through FY 2007. Additional rate increases of 18% in FY 2008 and 23% in FY 2009 are being proposed for adoption. A fully-metered system rate will commence implementation in FY 2010 and must be completed by 2013.

BACKGROUND

The Department of Public Utilities Water Division is responsible for delivering a reliable supply of safe, high-quality water to over 465,000 residents in the Fresno/Clovis Metropolitan Area for domestic, commercial and industrial use. To meet this responsibility, the Division must ensure that water utility operations and maintenance, capital costs, and long-term debt are adequately funded through the Water Enterprise Fund, while keeping rates as competitive as possible.

Customer user fees for the provision of water services are the main funding source for the Water Enterprise Fund. Currently, a flat rate is charged for single-family residential (SFR) water customers based on lot size (minimum 6,000 sq ft). The transition to a metered rate, a required condition of contract renewal with the US Bureau of Reclamation for water deliveries from the Central Valley Project (CVP), is planned to commence in FY2009 and to be completed by FY 2013. This will be accomplished in conjunction with a meter retrofit project. A separate rate study to establish a metered rate for SFR customers will be initiated during FY 2007. All commercial, industrial, institutional and multi-family



residential customers are currently charged a metered rate made up of monthly stand-by and usage charges.

In addition, the Water Enterprise Fund receives revenues from other sources, such as interest income, use of property charges, low-interest loans, grants, transfers from other funds and various reimbursements.

The latest rate increases were 8% each in FY 2002 and FY 2003, the only rate increases since FY 1994. No rate increases were instituted in FY 2004 or FY 2005, and in FY 2006, all water service rates were decreased by 5.5% (see next paragraph).

In a court decision rendered in June 2005, the City was directed to stop the collection of "in-lieu fees" (City charges to compensate for property tax revenue it would collect if the utility were privately-owned). This amount, \$2.8 million was deleted from the FY 2006 budget effective July 1, 2005. In compliance with this ruling, the City's utility rates were proportionally decreased, resulting in a 5.5% reduction of water service rates. Although the City eliminated the collection of an "in-lieu fee" (and reduced rates accordingly), an on-going appropriation of \$1.1 million per year was added to the Water Operating budget to recover costs associated with fire hydrant inspection services provided by the Fire Department in the FY 2006 budget. Taken together, these actions created a financial burden for the Water Enterprise Fund and the possibility of failure to meet debt coverage ratio requirements. To address this problem, it was determined that an independent review of the rates would be required during FY 2006 (prior to the submission of the FY 2007 Request Budget), to independently assess and evaluate the City of Fresno's existing rates within the short-term (five years) and provide recommendations. It was anticipated that a rate increase proposal would be developed for consideration by mid-year FY 2006.

The Water Division contracted with Brown and Caldwell in September 2005, to conduct a comprehensive water rate study. The broad objective of the study was to meet the short-term revenue requirements of the City of Fresno's Water Enterprise for FY 2006 to FY 2010 by adequately funding water utility operations and maintenance, capital costs, and long-term debt while maintaining rates as low as possible. It was based on a comprehensive review of the City of Fresno's financial and budgetary reports, water system plans, billing information (such as customer classes and current usage data), future planned capital improvement projects, projected system growth and any other information deemed necessary.

After the study was completed in December 2005, a proposal to implement a mid-year increase was turned down by the Mayor's Office. Next, DPU presented the rate increase proposal to the Mayor's Office together with the FY 2007 Request Budget. During budget negotiations, the Mayor's Office decided not to present the rate increase to Council. This circumstance necessitated a \$2.1 million reduction of the FY 2007 Request Budget to meet debt service coverage



ratios. As part of the budget deliberations, the Mayor's Office proposed to the Council that an eleven member Utility Commission (UC) be formed to review the rate proposal and develop findings and recommendations for the City's five enterprise utilities. The rate study was revised by Brown and Caldwell to reflect the FY 2007 to FY 2011 planning horizon and other budgetary changes. On November 1, 2006, this rate study was approved by the UC. They recommended Alternative 2 with rate increase of 18% in FY 2007, 18% in FY2008 and 23% in FY2009.

As part of the Prop 218 process, notices of the protest hearing are scheduled to be mailed on January 8, 2007. The hearing is scheduled for February 27, 2007, when if no majority protest exists, the City Council will be asked to approve an 18% rate increase in FY 2007, 18% increase in FY 2008, and 23% increase in FY 2009.

LEGAL REQUIREMENTS

As a charter city, the City Council may amend water service fees, as they relate to the Water System. Major applicable legal authorities can be found in Fresno Municipal Code Section 14-105--Rates and City of Fresno Charter Section 1218—Municipally-Owned Utilities.

The portion of California law with perhaps the most direct impact on the adoption, establishment and implementation of water rates is found in the California Constitution, Article XIIC and Article XIID. These articles were added by Proposition 218 and deal with property related fees and charges. A Proposition 218 Protest Hearing is planned as part of the rate approval process.

As a condition of two bond issuances, the City made rate covenants to fix, prescribe and collect rates, fees and charges for the Water System each fiscal year, which will at least yield Net Revenues equal to at least 125% of the estimated Debt Service and Net Current revenues equal to at least 100% of the estimated Debt Service. Failure to do so could lead to adverse consequences for the City, including calling in of the bonds, increased reporting requirements and higher future bonding costs.

FINDINGS AND RECOMMENDATIONS

Based on the findings of the Water Rate Study as they relate to the FY 2007 Water Budget and pending the results of the Prop 218 Protest Hearing, it is recommended that an 18% increase for all water service rates be implemented, effective April 1, 2007, and the additional rate increase to be adopted by Council as part of the Proposition 218 process.



FISCAL IMPACT

The adoption of the rate increases in will provide for full cost recovery (i.e. operations, maintenance, capital improvements, bonded and loan debt, environmental resource management, etc.) and will meet the goals of rate stabilization, maintenance of adequate fund balances and compliance with all bond covenants (for example, meeting debt service coverage requirements). Projected customer user charges will increase to \$37.9 million from \$36.1 million with the current rate structure.

A copy of the Water Rate Study is available upon request.



**CITY OF FRESNO
MASTER FEE SCHEDULE
AMENDMENT DETAIL**

DEPARTMENT OF PUBLIC UTILITIES/WATER DIVISION

Water Service Charges

The Water Division contracted with Brown and Caldwell in September 2005 to conduct a comprehensive water rate study. The broad objective of the study was to review the short-term revenue requirements of the City of Fresno's Water Enterprise for FY 2007 to FY 2011 using the current rate structure. A fully metered system rate study is planned to be implemented by 2013. The study was based upon a comprehensive review of the City of Fresno's financial and budgetary reports; water system plans; billing information, such as customer classes and current usage data; future planned capital improvements projects; bond covenants; projected system growth and any other information deemed applicable.

Evaluation Methodology

Water system expenditure and revenue data provided by the City was evaluated to determine the amount of revenue required from water rates. The study proceeded with the following determinations:

1. Projected water system expenditures (operations and maintenance, capital and debt service)
2. Projected water system revenue from sources other than water rates (interest, lease and rental income, grants, low interest loans, fund transfers, etc.)
3. The amount of revenue required from customer water rates

The amount of revenue required from water rates was, in turn, dependent upon producing sufficient revenue to meet the following three funding requirements:

1. Cover all operational and maintenance (O&M), capital and debt service expenditures (net of non-rate revenue)
2. Maintain a prudent level of fund balances
3. Satisfaction of debt service coverage covenants

Revenue Requirements

The water system revenue requirements are comprised of three basic categories:

Operation and Maintenance Expenses—In FY 2007, the City's O&M expenditures are budgeted at \$36.6 million. O&M expenditures include costs, such as labor, chemicals, power, water purchases, parts, equipment, contract repair, etc. These costs continue to rise due to negotiated labor contract



increases; inflationary increases for goods and services; maintaining compliance with more stringent state and federal water treatment regulations; operation and maintenance of new facilities and water system components; and repair and maintenance of old, failing infrastructure.

The Water Rate Study also considered the projection of O&M expenditure increases beyond FY 2007, as a factor in developing future rate increases. These increases averaged \$1.5 million per year.

Net Capital Improvements Funded From Rates—The City is planning significant capital expenditures during FY's 2007 to 2011. Major projects include:

- Well Construction Projects (\$12,300,000)
- SWTP / Friant Kern Canal Pipeline (\$11,100,000)
- Water Main Renewal (\$7,400,000)
- Transmission Pipelines (\$5,100,000)
- Downtown Well and Storage Tank (\$2,800,000)

These projects, plus other capital expenditures, total \$53.9 million over the five-year period. During FY 2007, a total of \$11.3 million is budgeted for projects.

The Water Rate Study also included funding capital improvement projects from other sources, such as bond proceeds, connection fees, litigation funds, etc. The two major projects, Single Family Residential Meter Retrofit and Southeast Fresno Bond Projects, are projected to cost over \$90.0 million and would be funded through bond proceeds. The total budget for capital expenditures for all funding sources from FY 2007 to FY 2011 is \$181.0 million.

Debt Service—The City's existing annual debt service principal and interest payments are approximately \$4.0 million for two bonds, two low-interest state loans and one with the Fresno Irrigation District. New debt service principal and interest payments are projected to approximate \$7.1 million per year, beginning in FY 2009 (the first year of full payments) and continuing until FY 2028. Total debt service beginning in FY 2009, is projected to be approximately \$11.1 million per year.

Revenue Projections

Prior to the development of revenue projections from water rates for FY 2006 and beyond, it was necessary to tabulate revenue from rates for a benchmark year. The benchmark year was FY 2005. Tabulation of revenue from water rates in a benchmark year involved comparing the net amount billed, as recorded in the City's financial accounting system, with an independent calculation of the net amount billed. The independent calculation of the net amount billed is the product of the number and type of service connections, water use and other uses of the water system, multiplied by the water charges shown in the Master Fee Schedule (amended June 2005, with the elimination of the in-lieu property tax fee) for each type of use. The projection of revenue from water rates is, also,



based upon projected growth in the number and type of service connections and any proposed rate increases.

Rate Alternatives

A number of rate scenarios were developed over the course of the study to compare the various rate alternatives. Three water rate scenarios were developed for the final report and are summarized below:

1. No increase in rates
2. Increase rates 5% in FY 2007, 40% in FY 2008 and 20% in FY 2009
3. Increase rates 18% in FY 2007, 18% in FY 2008 and 23% in FY 2009

The assumed level of growth in service levels remained the same for all alternatives. They were then evaluated using the funding requirements:

- Covering all expenditures
- Maintaining target reserves
- Meeting both debt coverage ratios

For FY 2007, Alternative 1 only met the coverage of all expenditures requirement while Alternatives 2 and 3 met all three.

Rate Recommendation

To accomplish the objective established by the evaluation criteria and as approved by the Utility Commission, Alternative 3 is recommended, with an 18% rate increase in FY 2007, effective April 1, 2007. Projected customer user charges will increase to \$37.9 million from \$36.1 million with the current rate structure.

A separate rate study to incorporate a metered rate for single family residential (SFR) customers will be initiated during FY 2007, in conjunction with planning for the SFR meter retrofit project.

A copy of the Water Rate Study is available upon request.



CITY OF FRESNO MASTER FEE SCHEDULE

PUBLIC UTILITIES DEPARTMENT

WATER RATES**

Fee Description & Unit/Time	Current	Proposed	Amnd
Water Service Charges, Flat Rate (single-family only)			451
For premises containing only a single-family residence, the total charge shall be the basic rate plus applicable additional charges.			
Basic rate (per month):			
First 6,000 square feet or less of lot size	13.35	15.75	
Each additional 100 square feet	0.133	0.157	
Senior Citizen (62 years or older) meeting all the conditions listed below:			
<ol style="list-style-type: none"> 1. Single-family residents only; 2. Service must be in name of senior citizen; 3. Occupants of residence must be senior citizen or dependants of senior citizen (not to exceed three occupants per residence); 4. Benefitting senior citizen must notify the City when they no longer qualify. 			
Basic Rate (per month):			
First 6,000 square foot or less of lot size	12.01	14.17	
Each additional 100 square feet	0.120	0.141	
Additional charges will be added to the basic rate for the following:			
Additional living unit, same premises (until metered) / per month	6.88	8.12	
Air conditioning/refrigeration unit (not equipped with water-saving devices) / ton per month	7.00	8.26	
Discharge water into dry well / ton per month	3.50	4.13	
Air conditioning/refrigeration unit (installed and equipped with water-saving devices) / ton per month	1.81	2.13	
After-hours turn on service work:			
Water, Discontinuance & Restoration of service (except emergency) per call	145.00		435

** Rates shall be adjusted annually by staff during the budget process to reflect the rates in effect as per Resolution no. 2007-79



CITY OF FRESNO MASTER FEE SCHEDULE

PUBLIC UTILITIES DEPARTMENT

WATER RATES**

Fee Description & Unit/Time	Current	Proposed	Amnd
Water, Metered Service Rate total charge shall be standby charge plus quantity charge based on usage.			451
Standby charge, meter size (per month):			
3/4-inch or smaller	5.87	6.92	
1-inch	7.89	9.31	
1-1/2-inch	11.03	13.02	
2-inch	15.82	18.67	
3-inch	26.32	31.06	
4-inch	36.80	43.42	
6-inch	57.81	68.22	
8-inch	89.31	105.39	
10-inch	105.01	123.91	
Quantity charge:			
Each 100 Cubic Foot (HCF)	0.436	0.514	
1,000 gallons	0.582	0.686	
Water drawn from a fire hydrant / Minimum per month	17.50	20.65	
Wells, private (used for irrigation or commercial purposes when required to be metered)			
Each HCF	0.128	0.151	
1,000 gallons	0.170	0.200	
Backflow Prevention, Service Inspection, and Maintenance			In-Lieu
Double-check and/or pressure vacuum breaker assemblies (per month):			6/05
3/4- and 1-inch	6.70		
1-1/4-, 1-1/2-, and 2-inch	8.92		
2-1/2-, 3-, and 4-inch	17.83		
6- and 8-inch	26.73		
10-inch	44.57		
Reduced pressure principle assemblies (per month):			
3/4-inch	6.70		
1-inch	8.92		
1-1/4-inch	11.12		
1-1/2- and 2-inch	13.42		
2-1/2- and 3-inch	15.62		
4-inch	17.83		
6-inch	26.73		
8-inch	35.65		
10-inch	53.48		

** Rates shall be adjusted annually by staff during the budget process to reflect the rates in effect as per Resolution no. 2007-79



CITY OF FRESNO MASTER FEE SCHEDULE

PUBLIC UTILITIES DEPARTMENT

WATER RATES**

Fee Description & Unit/Time	Current	Proposed	Amnd
Fire Hydrant , on private property (per month)	13.98	16.50	451
Fire Protection Automatic Sprinkler Service			
4-inch diameter or less (per month)	13.98	16.50	451
6-inch diameter or larger (diameter inch per month)	3.50	4.13	
Irrigation of City-Owned Property, Not Metered			
100 square feet	0.15	0.18	451
Puddling Trenches , Cross Section Area			
12 square yards or less / per linear foot	0.073		
More than 12 square yards / per cubic yard of backfill	0.121		
Water Treatment Charge, Fluoridation			
Per month	2.65	3.12	451
Penalties			435
Fire hydrant, unauthorized use / per violation	500.00		
Delinquent notice			
Sewer connection, deferred payment plan, 60 days delinquent	2.00 + accumulated interest & principal installment		
	10.00		
Returning travel meter after permit expiration date per day			
Conditions of service work (related to Water Wastage Services, FMC 14-119(d))	45.00		
First incident (deferred until fourth incident)*	45.00		
Second incident (deferred if conservation class attended)*	45.00		
Third incident (plus fee deferred from second incident if a water conservation class was attended)*	45.00		
Fourth incident (plus fee deferred for first incident)*	45.00		
Each incident after four			

* Within a two-year period.

** Rates shall be adjusted annually by staff during the budget process to reflect the rates in effect as per Resolution no. 2007-79

February 28, 2007

Council Adoption: 2/27/07
Mayor Approval:
Mayor Veto:
Override Request:

TO: MAYOR ALAN AUTRY

RECEIVED

FROM: REBECCA E. KLISCH, CMC
City Clerk

REK
2007 MAR 12 PM 2:00
CITY CLERK, FRESNO CA



SUBJECT: TRANSMITTAL OF COUNCIL ACTION FOR APPROVAL OR VETO

At the Council meeting of 2/27/07, Council adopted the attached Resolution No. 2007-80 entitled **451st amndmnt to MFS, adjust fees in Water Fee section**, Item No. **5:00 P.M. C1**, by the following vote:

Ayes : Calhoun, Dages, Duncan, Westerlund, Xiong
Noes : Sterling, Perea
Absent : None
Abstain : None

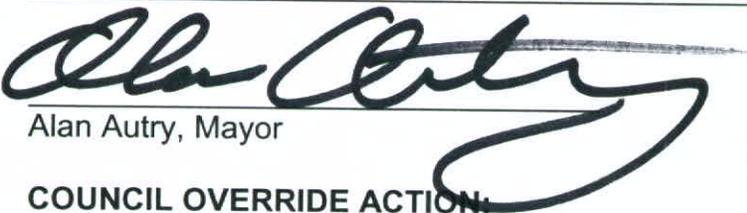
Please indicate either your formal approval or veto by completing the following sections and executing and dating your action. Please file the completed memo with the Clerk's office on or before March 12, 2007. In computing the ten day period required by Charter, the first day has been excluded and the tenth day has been included unless the 10th day is a Saturday, Sunday, or holiday, in which case it has also been excluded. Failure to file this memo with the Clerk's office within the required time limit shall constitute approval of the ordinance, resolution or action, and it shall take effect without the Mayor's signed approval.

Thank you.

APPROVED:

SEE ATTACHED

VETOED for the following reasons: (Written objections are required by Charter; attach additional sheets if necessary.)


Alan Autry, Mayor

Date: 3/12/07

COUNCIL OVERRIDE ACTION:

Date: _____

Ayes :
Noes :
Absent :
Abstain :



RECEIVED
2007 MAR 12 PM 1:59
CITY CLERK, FRESNO CA



MAYOR ALAN AUTRY

MEMORANDUM

TO: Henry T. Perea, Council President
Blong Xiong, Councilmember
Brian Calhoun, Councilmember
Cynthia Sterling, Councilmember
Larry Westerlund, Councilmember
Mike Dages, Councilmember
Jerry Duncan, Councilmember

FROM: Mayor Alan Autry 

DATE: March 12, 2007

SUBJECT: February 27, 2007 Council Action Regarding Utility Rate Increases

After careful consideration, I have decided not to veto your action to raise utility rates.

I agree with the need to play catch up and support rate increases approved by Council scheduled for April 1 and September 1, 2007. However, I have clearly communicated my position on the rate increases for September 1, 2008, 2009 and 2010. I believe strongly that Alternative A presented a rate plan that lessens the burden on family budgets, especially for the elderly and disabled on fixed incomes.

Your action to support an Amended Alternative B presents a quandary for me, because I support parts of it, but not all of it. Navigant Consulting has already provided information indicating that if a Special District was placed on the June 2008 ballot and passed, in all likelihood, rates would decrease by \$5.06 in 2008, \$5.99 in 2009 and \$6.39 in 2010. While these numbers may not be significant to some, those families, seniors and disabled that live on tight budgets will be greatly affected.

Unfortunately, over the years, politics have all too often driven the process of utility rate increases. The only viable way to extract the issue of utility rate increases from the political process and back to sound business practices where it truly belongs and best serves the people of the Fresno, is via a Special District. I encourage and expect the Council to adhere to the Utility Commission's recommendation to initiate the formation of a Special District by placing the issue on the June 2008 ballot so that the people may speak on this issue.



In addition, my final budget proposal will reflect that the September 1, 2008 rates be the lower rates associated with the formation of a Special District.

I would like to thank all of you for a job well done on evaluating this issue. Even though we may differ on some aspects, I respect your hard work and focus on the issue. This issue was certainly worthy of the time investment and focus that was committed by all of us.